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# Have you ever wondered what is the Mercosur?

*Mercosur at a first glance by Andrea Molinari and María Verónica Pérez Asinari*

With so many Latin Americans around Europe nowadays, you may have heard about the Mercosur. If you ever wondered what this is, this short note can help you as a first glance.

The Mercosur (Southern Common Market) is formed by Argentina, Brazil, Uruguay and Paraguay (plus Chile and Bolivia as associated countries). It aims to establish more productive and dynamic economies through market expansion and to promote harmonious and balanced socio-economic development. This is being done by the effective use of natural and human resources, the environment preservation, the macroeconomic policies co-ordination, and the development of economic complementarity among the member states.

## The Legal Framework

Mercosur is an integration process created on March 26, 1991 by the Treaty of Asunción. It is formed by four full member states and two associated countries which do not participate on the decision making process. Mercosur is an intergovernmental system without any delegation of sovereignty into a supranational organisation as it is the case of the EU.

The institutional structure, completed in the Protocol of Ouro Preto (signed on November 17, 1994) is firstly composed by Organs with decision making power such as a) *The Common Market Council* (CMC) which is formed by the member states' External Relations and Finance ministers. As the highest level organ, the CMC is in charge of the political aspects and it has to fulfil the Treaty of Asunción goals and to implement the Common Market. Among its functions, the CMC signs agreements with third countries, groups of

countries and international organisations in the name of Mercosur. It also practises Mercosur's legal personality of International Law. b) *The Common Market Group* (CMG) is integrated by four members per country belonging to the External Relations and Finance ministries and to the Central Banks. The CMG is Mercosur's executive body. c) *The Mercosur Trade Commission* (MTC) is co-

ordinated by the Ministers of External Relations. The MTC is the body charged with assisting the CMG and controls the fulfilment of the common trade policy instruments.

Secondly there are two consultative

organs to mention: *The Joint Parliamentary Committee* (JPC) is formed by Parliamentarians of each member state<sup>1</sup> and acts as the national Parliaments' representative body whereas the *Economic and Social Consultative Forum* (ESCF) is the representative body of the economic and social sectors.

Finally, *the Administrative Secretariat* of Mercosur as an administrative organ based in Montevideo, was set up as the operational support body. It is responsible for providing services to the other bodies of Mercosur and the official archive of Mercosur's documentation.

There are also eleven *Working Sub-groups*, which deal with technical aspects. More specifically, these subgroups deal with trade and customs issues; technical rules; fiscal and monetary policies related to trade; land and maritime transport; industrial and technological, agricultural and energy policies; macroeconomic policies co-ordination; and well as social, labour, and social security affairs. The presidency *pro tempore* is exercised by the member states and it rotates every six months by alphabetical order.

**...With over two hundred million people, a GDP that exceeds one thousand billion Euro, and an area that is four times bigger than that of the EU, Mercosur is the biggest and one of the most successful regional agreements in Latin America...**

The Treaty of Asunción, its Protocols and its additional or complementary instruments (e.g. Protocol of Ouro Preto, Protocol of Brasilia, etc.) are the primary legislation. The CMC Decisions, CMG Resolutions and MTC Directives integrate the secondary legislation. The legislation should be passed by *consensus* and with the presence of every member state. It has no direct effect.<sup>2</sup>

Mercosur has no Court of Justice yet. The Protocol of Brasilia (1991) regulates a process for dispute settlement among states, which was modified by the Annex to the Protocol of Ouro Preto.<sup>3</sup>

## The Economic Aspects

With over two hundred million people, a GDP that exceeds one thousand billion Euro, and an area that is four times bigger than that of the EU, Mercosur is the biggest and one of the most successful regional agreements in Latin America.<sup>4</sup> The idea of regional integration has had origin in both regional and bilateral agreements.

The economic integration process began with a transition period (1991-end of 1994) in order to first achieve a Customs Union and with the final aim to reach the establishment of a Common Market<sup>5</sup>, it consisted in the progressive, lineal and automatic tariff and non-tariff barriers reduction.

The *Customs Union* measures were first applied in 1995. These measures entail the introduction of a Common External Tariff (CET) for 85% of the tariff universe;<sup>6</sup> the establishment of rules of origin (to prevent trade triangulation)<sup>7</sup>; and the progressive harmonisation of non-tariff barriers.

The steps towards the *Common Market* contemplate particular aspects of the region. Some of these topics are the establishment of a Common Regime for the Motor Vehicle Sector, a Common Sugar Regime, a Common Strategy for Textiles, a Common Statute for Competition Policy, safeguards towards third countries, a Common Regulation for Consumer Protection, and the negotiation of the Multilateral Maritime

Transport Agreement.

The gradual and cumulative tariff reduction has caused a significant trade increase between the member states. On the other hand, the gradual convergence towards the CET has also had an important effect on the trade of the bloc with third countries. This increase is shown in the table below. Given that the main integration process began with the Treaty of Asunción (1991), and that the Customs Union began working in 1995, the period 1991-1998 is good to reflect these changes.

### Intra-Mercosur Exports and Imports

% Share from total		1991	1992	1993	1994	1995	1996	1997	1998	91-98 var.
Exports	Intra-Mercosur	11	14	19	19	20	23	25	25	127%
	Rest of the World	89	86	81	81	80	77	75	75	-16%
Imports	Intra-Mercosur	16	18	20	20	18	20	21	21	31%
	Rest of the World	84	82	80	80	82	80	79	79	-6%

Source: ALADI.

From here, we can infer:

- 1) Although Mercosur exports to the rest of the world increased by 44%, the share over total exports has decreased by 16% between 1991 and 1998. Also that Mercosur imports from the rest of the world increased by almost 170%, but the share over total imports decreased by 6% in the period mentioned.
- 2) Intra-Mercosur exports increased by almost 300% and the share over total exports increased by 127%.
- 3) Intra-Mercosur imports also increased by almost 300%, and the share over total exports increased by 31%.

These conclusions reflect that, although total trade has increased, trade integration within Mercosur member states (especially concerning their exports) has augmented more steadily over the last decade of the twentieth century. This was mainly due to considerable political and economic commitments of these countries towards a sounder Mercosur bloc.

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<sup>1</sup> Each member state is equally represented.

<sup>2</sup> In other words, it should be incorporated to national legal orders using the internal legislation procedures of each country.

<sup>3</sup> *Procedimiento General para Reclamaciones ante la Comisión de Comercio del Mercosur.*

<sup>4</sup> Together with the Andean Community and the CACM.

<sup>5</sup> Although this has not yet been attained.

<sup>6</sup> There are still exception lists for the most sensitive goods, subject to a linear, gradual and automatic reduction process, and special convergence deadlines for capital, IT and telecommunications goods.

<sup>7</sup> In other words, a certificate of origin is required for re-exporting goods to other member states.

#### Some useful e-references:

- MERCOSUR - Administrative Secretariat:  
<http://www.mercosur.org.uy/pagina1esp.htm>;
- Mercosur Economic Research Network:  
<http://www.redmercosur.org.uy/>
- Mercopress